

**CONDOMINIUM
DEVELOPMENT IN ARMENIA
AN INTRODUCTION**

Prepared for

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FINAL DRAFT: CONDOMINIUM DEVELOPMENT IN ARMENIA

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ACRONYMS AND ABBREVIATIONS

AUA	American University of Armenia
CAS	Country Assistance Strategy
CIDA	Canadian International Development Agency
CPA	Center for Policy Analysis
DANIDA	Danish International Development Administration
ERM	Environmental Resources Management
EU	European Union
FY	Fiscal Year
GEF	Global Environment Facility
ICMA	International City Managers Association
MUD	Ministry of Urban Development
NACO	National Association of Condominium Owners
NGO	Non-governmental Organization
SRCCMS	Scientific Research Center for City Management Systems
PRSP	Poverty Reduction Strategy Paper
TACIS	Technical Assistance to the Commonwealth of Independent States
TPN	Transition Policy Network
UI	Urban Institute
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank

TERMINOLOGY

Throughout the report, *dues* is used to refer to funding received by condominiums from their members for use by condominiums, while *fees* is used to refer to money received by condominiums from their members for specific services, generally contracted from private companies. For example, condominium dues pay for services directly provided by condominiums, while condominiums levy fees from their members to pay water supply companies.

INTRODUCTION

Purpose

This paper is to

- summarize the status of condominium development in Armenia;
- identify the factors likeliest to contribute to well functioning condominiums;
- assess options for, and alternatives to, supporting condominium development; and
- recommend basic elements of condominium components to be included in upcoming World Bank water and heat sector projects.

Methodology

The authors were selected for their previously existing knowledge on relevant topics and their intimacy with relevant, ongoing projects in Armenia. Mais Vanoyan is a resident and citizen of Armenia, and leads the condominium development activities of UI's local government project. Brien Desilets is a Research Assistant based in UI's Washington, D. C. headquarters, from where he supports UI's international programs. Both authors regularly work with UI's housing project in Armenia. The authors collaborated remotely during Summer 2001. The authors were able to work directly with each other during a three-week period in September 2001 because Brien Desilets visited Armenia for other purposes; his visit was not part of the design of this report.

The authors consulted many publications on housing, utilities and related subjects in Armenia, other countries of the former Soviet Union and countries in eastern Europe. Publications consulted are listed in the Bibliography while publications referenced in the text are listed under Works Cited.

Several experts from government, nonprofit organizations, research and consulting companies and donors contributed information for the report through interviews and other informal communications. The authors interviewed several chairpersons of condominiums in Armenia. Annex 2 lists all of the experts and practitioners consulted. Most of them also provided comments on the *Draft for Comment*, circulated in September 2001.

This report does not result from formal primary research, but rather from a review of existing information, anecdotal information provided by individual persons to the authors and the authors' own observations and previous knowledge. The recommendations and conclusions included in the report do not necessarily reflect those of the Urban Institute or World Bank.

OVERVIEW

The social communism and collectivism of Soviet Armenia still is represented by the architecture of its housing stock; Armenia's towns and cities are filled with multi-unit, multi-story residential buildings (see table below). Most of these buildings include many common areas: wide stairwells; courtyards; walkways and alleyways; and external surroundings. Municipal enterprises known as *zheks* managed and maintained these buildings in Soviet times, and many still continue to provide all or some of their traditional services.

The central government of Armenia privatized home ownership without regard to the extensive common property included in the multi-unit buildings of its housing stock. In Government Decision No. 295 of 30 May 1995, the government directed its local authorities to support the formation of condominiums¹ as a means of providing for the management of common property in multi-unit buildings. Some local authorities received this Decision as an order to complete condominium formation in all multi-unit buildings. For example, in the city of Kapan, an area well known for its adherence to law and government decree, the implementation of this decree led to condominium organization of 95 percent of housing (the rest is owned by government or enterprises, or otherwise is exceptional).

Although the Law on Condominiums, enacted in 1996 and amended in 1998, clearly identified condominium formation as a voluntary option for housing management, many residents now are members of condominiums² in which they had no part in forming. A recent survey by the Scientific Research Center for City Management Systems found that many residents were informed of their condominium membership only after their condominiums had been registered (SRCCMS 2001).

Participation in condominiums offers homeowners collective opportunities to physically improve, and otherwise invest in, housing. Because they are locally based management systems, condominiums also offer many savings for the government and public of Armenia. Even though their legal framework is somewhat incomplete and not fully enforced, successful condominiums already are involved in administering financial assistance to their vulnerable members, maintaining building infrastructure and investing in their properties. There are many opportunities to involve them more substantially in utility service provision, social protection and economic development.

However, many condominiums are inactive because of a lack of individual action, interest and understanding among their members. Approximately 15 percent of condominiums report that they are totally inactive and collect no fees. Approximately 20 percent actively collect dues, hold meetings and provide a range of services to their members. The remaining condominiums provide varying levels of service (NACO).

This process of condominium development, in addition to the Soviet tradition of individual inertia, has created an environment in which many citizens are unaware of the responsibilities and opportunities offered by their status as homeowners and condominium members. They do not act as homeowners in market economies with long traditions of private property; for example, many homeowners still expect their government to repair their roofs should they require repair. They do not maximize their rights and opportunities within the condominium structure because they are unaware of those rights and opportunities, and because they witnessed condominium formation as another wave of centrally directed government programming.

For this reason, analyzing official statistics related to homeownership and condominium membership requires caution. For example, the rate of homeownership in Armenia is very high (96 percent as of

¹ The actual language was, "The executive committees of delegate local boards shall perform the appropriate organizational activities aimed at mostly finishing the formation of condominiums in those multi unit buildings where at least 50% of apartments are privatized before the end of the year 1995..."

² For a definition of condominiums and complete discussion of their legal framework in Armenia, see Annex I.

2000, according to the State Statistics Service), but this does not mean that a large percentage of the population is seeking to maximize its returns on investments in housing. Such behavior is learned, and developed over years of experience.

The less than stellar performance of condominiums has led to a search for new approaches to the challenge of maintaining and developing the housing stock of Armenia. However, the poor performance of state enterprises in sectors closely related to condominiums, mostly in utility provision, offers both incentives for condominium action and opportunities for the government to exploit existing and developing condominium resources. This report highlights some of those incentives and opportunities, and concludes with related recommendations for government and donors.

Characteristics of Registered Condominiums in Armenia, July 2001	
Number of registered condominiums	602
Number of buildings among registered condominiums	4,035
Number of apartments among registered condominiums	170,969
Total area among registered condominiums	90,10,085 sq. m.
Percentage of housing stock among registered condominiums	41%
<i>Source: National Association of Condominium Owners</i>	

Distribution of Residents of Multi-story and Individual Housing in Armenia [Date of Data unknown]³			
Total	Cities	Villages	Total
Population (thous. people)	2,536.0	1,262.2	3,798.2
Residential area (thous.sq.m)	22,351.3	18,611.6	40,962.9
Residential area per capita (sq.m)	8.8	14.7	10.8
Multi-story buildings			
Population (thous. people)	1,539.1	107.2	1,646.3
Residential area (thous.sq.m)	14,358.4	868.5	15,226.9
Residential area per capita (sq.m)	9.3	8.1	9.2
Individual houses			
Population (thous. people)	996.9	1,155.0	2,151.9
Residential area (thous.sq.m)	7,992.9	17,743.1	25,736.0
Residential area per capita (sq.m)	8.0	15.4	12.0
<i>Source: UNDP/GEF 2000 [2]</i>			

³ The date of record for this data is unknown. Reliable data on the population of Armenia is difficult to obtain, largely because government officials are hesitant to acknowledge the vast exodus from the country that began at independence and continues to this day. This data does provide useful information on the relative numbers of residents of single homes vs. multi-story buildings. However, the hypothesis that many of the residents who have left Armenia were the most wealthy, so likely to have lived in single homes, seems reasonable. However, reliable, supporting data would be difficult to obtain for the reasons just mentioned. Data from the national census planned for Fall 2001 should be interpreted with these issues in mind.

RATIONALE FOR CONDOMINIUM DEVELOPMENT

Successful condominiums in Armenia provide the most convincing justification for supporting condominium development nationwide. The following paragraphs describe successful condominiums that may be viewed as models for condominiums throughout Armenia. The social, financial and economic benefits of condominiums are analyzed after the descriptions. Characteristics of five successful condominiums in Yerevan are summarized in the table below.

Successful Condominiums

Residents established the Achapniak 1 condominium in 1998. The condominium includes 15 residential buildings and 2,100 residents. The chairperson is highly energetic and innovative. As a result of his successful management, three other condominiums have contracted Achapniak 1 to provide management services in exchange for 25 percent of collected dues. The competence of the chairperson, and the condominium officers in general, is the main indicator and cause of successful condominiums. While condominium residents, indeed most citizens of Armenia, live in poverty (CAS, Box 1), this is not the main reason for the lack of condominium dues payments. Instead, the nonexistent or low level and bad quality of services provided by condominiums and the related lack of trust in their management is the main reason residents do not pay their condominium dues⁴.

During 2000, Achapniak 1 collected 60 percent of its member dues, compared to 15-20 percent experienced by most active condominiums. Dues for Achapniak 1 are 10 drams per square meter per month. The condominium maintains contracts with providers of water, garbage disposal and rodent control services. The charge for garbage disposal is 80 drams per person per month, and the collection rate is approximately 60 percent.

The condominium also collects fees for water supply services, experiencing a collection rate of 40 percent, which is at least 10 percent higher than the average collection rate of the city's water company. The buildings, not apartments, are individually metered (metering of both types is rare in Yerevan and throughout Armenia), and water fees are levied based on building consumption, resulting in fees that are two thirds of the fees paid by buildings without meters. This is consistent with other countries and regions of the former Soviet Union, since estimates of normative consumption usually are too high (for example, see Cartwright 2000).

Achapniak 1 has worked with international and humanitarian organizations, including the Woodgreen Community Center's initiative, sponsored by the Canadian International Development Agency (CIDA). During 2000, as part of the Woodgreen program, the condominium upgraded six buildings by replacing doors, painting walls and repairing roofs. Renovation costs amounted to 1.5 million drams (approximately US\$3,000). In 1999, the condominium performed repairs amounting to 1.15 million drams. The main source of financing was membership dues.

The condominium self-administers social assistance to its vulnerable members, waiving 50-100 percent of dues and fees. In cooperation with NGOs, the Achapniak 1 condominium also has distributed goods to these socially vulnerable members. In general, the condominium pays close attention and care to elderly, disabled and young residents. The condominium also organizes social events, such as a ceremony to recognize the 55th anniversary of the end of World War II, during which presents were distributed to war veterans (Babloyan September 2001).

Residents established the Avan condominium in 1996. It includes 19 multi-unit buildings that house 3,500 residents. The chairperson agrees that the amount of dues and fees collected depends mainly on the level of activity of a condominium's management.

⁴ This point would be more clearly supported with data showing dues as a percentage of income. However, reliable data of this type would be difficult to obtain since households may report lower than actual income levels. The authors of this report did not have adequate resources to further investigate this issue.

Avan residents are involved in the management of their condominium. The chairperson developed questionnaires to obtain feedback on various issues. The benefits of this type of inclusion are evident in the collection rate of member dues: 65 percent, even with one of the highest due rates in the country, 20 drams per square meter per month.

Beginning in May 2001, Avan contracted a private company for garbage collection, resulting in savings of 40,000-50,000 drams (approximately US\$100) per month, compared to the public garbage company. The condominium experiences collection rates of 70 percent for garbage service fees (Khachatryan September 2001).

Avan also collects fees for water supply, and services its own pump, even though the pump is owned by the city water company. Because of these efforts, residents now have potable water service for 7-8 hours each day. This is among the best service experienced by residential buildings in Yerevan.

Avan has undertaken several capital repair projects. All of its elevators have been renovated. The condominium directly collects the fees for elevator servicing, experiencing a collection rate of 65 percent. Iron doors were installed in the entrances to all building basements. Four buildings are undergoing roof repairs. A garden, drinking fountains and a carousel were built on the condominium's territory.

Services Provided by Active Condominiums	
Service	Percentage of Active Condominiums Providing Service
Garbage Management or Payments	70
Cleaning of Common Areas	62
Water Supply Maintenance or Payments	41
Common Areas Repair or Maintenance	25
Heating System Payments or Maintenance	24
Elevator Maintenance or Payments	20
Self-policing of Illegal Electricity Use	11
<i>Source: ERM 2001</i>	

Characteristics of Successful Condominiums in Yerevan																	
						Water Supply and Wastewater Service				Solid Waste Service							
Condominium	Founded	Monthly Dues, Drams Per sq.m.	Dues Collection Rate (%), 2001	Number of Buildings	Number of Residents	Condo has Contract?	Monthly Fees, Drams Per Capita ¹	Fee Collection Method	Collection Rate (%) ³	Condo has Private Contract?	Monthly Fees, Drams Per Capita	Fee Collection Method	Collection Rate (%) ³	Rodent Control Contract?	Assistance for Vulnerable	Donor/Government Support	Projects
Achapniak 1	1998	10	45	15	2,100	Y	280 ²	P	40	Y	80	C	60	Y	Y	Woodgreen	Roofs, doors, painting, office
Avan	1996	20	65	19	3,500	Y	420	C	30	Y	100	C	70	Y	Y	No	Elevators, roofs, water pump, basement doors, garden, drinking fountain, carousel
Gevorg Chaush	1996	10	65	9	1,300	N	420	W	10 ³	Y	100	C	80	Y	Y	No	Street paving, window insulation, roofs, water pump, doors
Mar 6	1996	18	40	1	372	Y	420	C	85	N	100	C		Y	Y	MUD, ICMA, dist. & loc. gvt.	Roof, yard, pool, playground, park
Taron	1998	12	80	19	3,052	N	420	W	15 ³	N	100	G	³	Y	Y	No	Roof, vulnerable res. apt. repair
Key: Y-Yes N-No; C-Condominium G-Government P-Private Company W-Water Company; MUD-Ministry of Urban Development ICMA-International City Managers Association																	
1. The government determines fees for water supply services. Fees range from 200 to 420 drams per person per month (Lampietti et al 2001, 33). 2. Achapniak 1 has building-level meters that permit billing based on consumption, which is why their water fees are so much lower than other condominiums. 3. In cases where the condominium does not collect fees, the collection rates are very rough estimates.																	
<i>Source: Bablyan; Ghazarian; Harutyunian, Robert; Harutyunian, Vardan; and Khachatryan (all September 2001—see Interviews under Works Cited)</i>																	

Social Benefits

Condominiums offer their residents opportunities to improve the quality of their lives through collective action. They also offer opportunities to gain experience in decision making, planning and budgeting, consensus building and representation. Skills gained from these opportunities are applicable to many positions of responsibility within democratic societies, so active condominiums contribute to national capacities in governance.

Condominiums also offer venues for discussions about issues common to condominiums. These include intra-condominium issues that condominiums should easily be able to address themselves. They also include issues common to all condominium members, such as building infrastructure and utility services. When residents voice their desires and grievances and other condominium residents and their officers respond, this arrangement leads to improvements in the quality of life within condominiums.

The Gevorg Chaush condominium charges its members a monthly fee of 50 drams per capita to fund elevator maintenance. Collection rates for this fee decreased to approximately 30 percent. In response, the condominium applied to the court system to force payment of the fee. The court found in the condominium's favor, and residents now regularly pay the fees. This provides evidence that condominiums will police their own members; a method that is less politically controversial and perhaps more effective and less costly than a government agency or state enterprise pursuing its customers.

For another example, condominiums have administered various types of social assistance to their members. This includes distributing goods received by international humanitarian organizations, and distributing gifts to vulnerable groups. Condominiums exempt an average of 10 percent of their members from paying dues because those members are unable to pay. Many of these residents contribute their labor to the condominium, while other residents increase their payments so the condominium still can cover its financial commitments to service providers (NACO, Doane et al 2000). Residents who live in the same building are best qualified to distinguish who among them is unable to pay versus who among them is unwilling to pay. Therefore, decisions about waiving payments and pursuing non-payers through courts are best made at this level.

This concept is supported by public finance theory, the subsidiarity principle of which indicates that provision of services is most efficient when managed by the lowest level of government associated with the benefit area, or geographic region, in which the users of services are located (see, for example, Conway et al 2000 and Martinez 2000). While condominiums are not part of the official government structure of Armenia, they are in effect governments, or governors, of their members. Since they obviously are aligned with the benefit area of their members, economic theory identifies them as the most efficient providers of governance services for their members.

Financial Benefits

Condominiums can provide financial savings to their members and society at large. For example, some condominiums that contract private garbage collection services save their members US\$100 per month. When condominiums instead of individuals contract service providers, collection rates generally increase and administrative costs generally decrease. Some service providers already offer discounts to condominiums in recognition of these savings. For example, on average, condominiums collect 60 percent of the fees owed for water supply services whereas water company employees experience collection rates of only 30 percent (NACO). As compensation for collecting fees for water supply services, the water companies allow the condominiums to retain 3 percent of collected fees (NACO).

Economic Benefits

"Preliminary results from the forthcoming (FY01) Growth Study suggests that manufacturing and services growth has been heavily concentrated in Yerevan, and in only a few sub-sectors (such as diamond polishing). Investment has also favored large enterprises (such as in power) with a limited potential for new employment. At the same time most traditional enterprises have continued to downsize, while creation of new private enterprises -- particularly labor-intensive small and medium-sized enterprises -- has remained weak and unable to absorb excess labor." (CAS, 5)

As condominiums develop and contract private enterprises for services, they contribute to more vibrant local economies. The supply chain of successful condominiums reduces government monopolies, supports the growth of small and medium enterprises and offers employment opportunities for the very residents of condominiums, in addition to presenting substantial savings for consumers (see Financial Benefits section above). Increased contracting by condominiums will contribute to the economic development of their communities.

The role that successful condominiums play in redistributing wealth deserves special attention. In this regard, condominiums are in effect creating and administering social security and assistance program at the block and building levels. The fact that these systems have privately developed indicates some level of efficiency, at least in the short term. They are reinforced by the proximity of investors to their investments, which allows the investors to observe off-balance-sheet contributions (such as voluntary labor) of non-paying or low-paying members. Such reinforcement would be lost if the programs were transferred to government administration.

However, these systems have not developed in all condominiums, but they have developed in most condominiums that are active in other operations. According to the few condominium chairpersons interviewed for this report, the general activity of condominiums depends not on the level of wealth among condominium members, but on social factors contributing to collective action. However, the social assistance functions of condominiums may depend on the difference in wealth among condominium members.

Certainly, any analysis of the financial viability and sustainability of condominiums should recognize the subsidies they are providing to their own residents.

Summary

Condominiums offer:

- savings in service fees for their members;
- higher collection rates and lower administrative costs for contracted services;
- support for private sector development, especially the type in which Armenia's transition is incomplete;
- community-based social security and management networks; and
- social cohesion and activism that feeds participatory governance.

Condominiums require:

- energetic managers;
- recognition of the subsidies they provide to their vulnerable members that are not compensated in-kind or through future repayment; and
- rights to associate and contract.

THE DEVELOPING LEGAL FRAMEWORK OF CONDOMINIUMS

Formation and Registration

The government of Armenia reinforced the Soviet legacy of central government control and individual inertia by introducing Government Decision No. 295 of 30 May 1995 that directed condominium formation. The Decision was not even supported by efforts to notify citizens of their memberships, never mind the rights and opportunities provided by this status. The government then provided for voluntary registration in the Law on Condominiums, adopted on 1 May 1996 (with minor amendments in 1998). A complete summary of the Law is included as Annex 1 to this report. The adoption of the Civil Code in 1999 transferred ownership and management of common areas of multi-unit buildings to condominiums and required (re)registration of all condominiums. For these reasons, the formation and registration of condominiums in Armenia has been a confused and sporadic process, one that is separate from the actual start of operations of active condominiums.

Operations

The current Law on Condominiums requires local governments to support condominium development by transferring land ownership to condominiums and by verifying the architectural soundness of condominium buildings whose documentation is more than one year old or nonexistent. However, no land yet has been transferred to local governments and no architectural studies yet have been completed. The section below on Conflicts of Interest with Local Governments discusses potential motives for the failure of local government to support condominiums as legally required.

Taxation

While amending the law on value added taxes (VAT) in December 2000, the central government eliminated the exemption of condominiums from payment of VAT. Accordingly, condominiums now are taxed as service providers, same as utility companies, and on the basis of the number of condominium members, not on the basis of fee-paying members.

Condominiums should not be taxed on the dues paid by their members because the services they provide for these dues are noncommercial and condominiums are nonprofit organizations. The provision of management services by one condominium to another may be viewed as a commercial operation and therefore subject to taxation. However, such an arrangement may also be viewed as an association of condominiums featuring the pooling of certain funds (payment in the commercial interpretation). The tax law should be corrected to ensure that condominiums are not taxed on the dues paid by their members. The legal framework for condominiums should clarify opportunities for condominiums to associate, in regional condominium associations, for example, and related taxation issues. The legal framework also should clearly define which economic activities of condominiums should be taxed (see list of potential revenue sources in Annex I).

Condominium lands are to be taxed from the moment of transfer. Condominium common structures are exempt from taxation until 2006.

Property Rights

The Law on Condominiums provides for local governments to transfer to condominiums ownership of land under condominiums, but the transfer has yet to occur. Land under the buildings has been held with “permanent use” rights for the owners, but at the time of the passage of the Law on Condominiums, the country had no land code. The Land Code has since passed, and the new Law on Condominiums, to be considered by the parliament in Fall 2001, should complete the transfer of land. Meanwhile, land under condominium buildings has been held with “permanent use” rights by apartment owners. The new Law also should alleviate some other issues of property rights. For

example, it is unclear whether the government or condominiums own yards around and between condominiums.

Efforts to Improve the Legal Framework

In recognition of some of the gaps in the legal framework for condominiums, the Condominium Working Group of Armenia has prepared a new Law on Condominiums that is expected to be considered by the parliament in Fall 2001. The draft of 14 June 2001 includes more specific identification of the boundaries between condominium properties and individual apartments and more elaborate provisions for condominiums to engage in business activities and to keep the revenues from these activities (for uses identified in their charters). It also states that condominiums will be subject to government registration under certain procedures to be established by law, but does not include these procedures.

The Working Group also prepared several amendments to the Law on Local Self-government and the Civil Code to harmonize them with the new draft condominium law. The amendments attempt to clarify the role of local governments in the formation and operation of condominiums.

Alternatives to Condominium Management

The Condominium Working Group now is considering the proposal of a law on apartment management that would include condominiums as one option for management of multi-unit buildings, but would also include options such as hiring an individual manager, contracting a property management firm and establishing or joining a cooperative. The law also would include provisions for buildings that fail to choose one of the options; the likely provision would be government servicing of the building.

The permission of alternatives to condominium management of multi-unit buildings is unlikely to resolve the problem of residents that have failed to form condominiums. The main reason is that deciding another option requires the same type of collective action required by formation of a condominium. After all, condominiums now are free to contract individual and corporate property managers. Besides, how would residents settle contracts with private managers if not by meeting to discuss their concerns and appointing one or a few of themselves to negotiate such contracts? They will have to implement the same type of organization required by condominium formation, just without referring to it as such. Worse, they could be forced to enter contracts on unacceptable terms because of the difficulty of organizing themselves, without a framework, to negotiate such contracts, thereby giving scarce managers a clear advantage in negotiations. Certainly, there is no harm in offering alternatives, so long as they do not limit the rights and opportunities of existing and developing condominiums.

However, the establishment of provisions for buildings that fail to organize themselves is likely to solve current reluctance, or simple failure, to collectively act. Such provisions are likely to stimulate condominium formation, especially if the default option is for the government to manage such buildings. This encouragement of voluntary formation is likely to lead to more sustainable condominiums, since members will have to participate in condominium formation. The example of Vilnius, Lithuania, is included in the section on Relevant Donor Efforts in Other Countries. The success of this policy, and of encouraging the management of multi-unit buildings in general, fully depends on citizen awareness of their situation and the options they face. Before introducing new legislation and options to condominium management, government and donors should inform citizens of the current legal framework and the rights and opportunities it offers.

OTHER ISSUES OF CONDOMINIUM DEVELOPMENT

Conflicts of Interest with Local Governments

The provision of communal services traditionally has been a function of the Soviet state apparatus. The government and its enterprises provided services of trash collection, water and heat supply, wastewater and others to residents. As condominiums develop, they seek cost savings and/or service improvements, they looked to alternative service provision. For example, in 2000, 25 percent of condominiums privately contracted trash collection (Doane et al 2000, 59).

The current Law on Condominiums requires local governments to organize founding meetings of condominiums, and also to verify within one year of condominium formation the structural soundness of condominium buildings whose documentation is more than 10 years old or nonexistent. To date, local governments have held no founding meetings of condominiums and conducted no structural studies.

One of the main reasons local governments have obstructed condominium development is that the freedom of condominiums to select their service providers threatens the municipally owned zheks, or maintenance and service companies. In most communities in Armenia, public awareness of this situation, public participation in local government and local government accountability all are too limited to force local governments out of the zhek business, or at least to force local governments to allow competition in this business. In addition, zheks have additional authorities they can use to obstruct condominium development. For example, residents may require residential certification from zheks to send their children to school, an outdated authority that should be removed.

Some communities have overcome the zhek problem. For instance, the overwhelming membership in condominiums of the citizenry of Kapan has led to the removal of local governments from all zhek business except garbage collection. This may be a good lesson for other communities: collective action removes government monopolies, saves citizens money and contributes to the development of the private sector. However, the case of Kapan may not be a good model for condominium development because its condominiums were formed in reaction to the central government's 1995 decree, and not at the initiative of its residents.

Maintenance

Only 10 percent of condominiums contract private companies for maintenance services. Private companies usually perform building repairs, including replacement of doors and windows. For other services and other condominiums, staffs and members usually provide necessary resources. Residents unofficially donate their own labor to perform simple tasks of maintaining common areas. Most condominiums lack sufficient supplies to undertake complicated maintenance and repair. As condominiums and private markets continue to develop, these now unofficial services could constitute markets for services provided by small and medium enterprises.

Abandoned Apartments

Since independence, Armenia has experienced a mass exodus that is reflected in, among other things, the actual occupation rates of multi-unit buildings. Official figures are difficult to obtain, and suspect, for the reasons noted in the footnote to the second table in the Overview of this report. By some estimates, 30 percent of residents are missing from multi-unit buildings in Yerevan and 40 percent from multi-unit buildings elsewhere in the country (Harutyunyan, Robert, September 2001). These individuals may be living in other areas of Armenia or on other continents, but they still stand to benefit from the continued maintenance of, and provision of services to, their apartments, especially if they someday re-occupy, leverage or sell their apartments.

This situation presents problems for developing and operating condominiums. State enterprises base their bills for some, if not all, utility services on the number of registered, not actual residents. Condominium member dues are higher than would be otherwise in buildings with abandoned apartments because the number of residents among whom overall costs are divided is less. So, there is a need to permit condominiums to claim abandoned apartments for conversion, sale or rent.

Human Resources

Condominiums suffer from the same lack of managerial skills faced by most other institutions in Armenia. A major obstacle to Armenia's transition to a market economy, "is weak managerial skills, resulting from decades of market isolation, and exacerbated by a decade of border closures." (CAS, 6) Condominiums, schools (CAS, 3) and government (CAS, 8) all require financial management and other accountability mechanisms.

Property management, especially condominium management, requires many skills that are uncommon to the general population of Armenia. The original and draft condominium laws charge condominium presidents, managers and audit committees with many tasks (see Management section of the summary of the Law on Condominiums in Annex 1) the skills for which are not common to the majority of condominium residents in Armenia. The number of property managers and property management firms in Armenia is small, and more oriented to serving commercial and expatriot clients than small-scale clients such as condominiums. Only 20 percent of active condominiums contract professional managers; the rest rely on their chairpersons to fulfill manager responsibilities.

Qualified and motivated chairpersons are in short supply. Successful chairpersons head very large condominiums, with more than ten buildings and thousands of residents. Even then, other condominiums contract these same successful condominiums to manage their affairs. Since this market for management services still is developing and there is a potential for moral hazards to develop with it⁵, the situation should be monitored by government, donors and other stakeholders. In the longer term, an increase in the supply of qualified managers and the knowledge level of condominium members should alleviate these issues. Training programs should identify the specific characteristics of successful chairpersons and attempt to include development of those characteristics in their courses.

More than 40 percent of 701 household representatives of Armenia surveyed by UNDP/GEF in 2000 indicated that they were unemployed. An average of 23 percent of members of 2,490 households of urban, multi-unit buildings surveyed by ERM in 2001 indicated that they were unemployed. This represents a huge base of human capital that could be employed in condominium development and maintenance, whether skilled or unskilled. When organized, these unemployed individuals provide their and other condominiums with required services, many times instead of paying dues and fees. This circumstance highlights the need for training and certification of plumbers, electricians and related professions, and the same for property managers, whether chairpersons or professional managers hired by condominiums.

National Association of Condominium Owners

The National Association of Condominium Owners was established in 1997 with the support of USAID, and since has survived mainly on USAID's resources. Individual heads of condominiums are its members. They nominally are required to pay fees of half a dram per square meter of building space. They are supposed to collect fees from the residents of their condominiums, however, USAID has been paying the dues, and its projects have been supporting the association through grants and

⁵ This report notes several areas in which condominium members have had less than perfect information on their rights and opportunities. In addition, some anecdotes indicate that some chairpersons have used their positions to influence voting behavior among condominium members. The ERM 2001 report cited at least one example of chairpersons using their positions to illegally gain extra income.

contracts for services. For example, UI recently contracted NACO to conduct a study of, and training sessions for, condominiums in six Marzes (districts of central government administration) outside of Yerevan. This is a positive way to build NACO's capacity; if its work is valued by condominiums, NACO should be able to rely on member dues and contracts with condominiums for similar services in future. The development of regional associations of condominiums (at both city and oblast levels) has aided condominium registration and capacity building in Russia and Kyrgyzstan (Koutakova 1998; Reikofski et al 1999-2001). Donor efforts in Kyrgyzstan are described in the section on Relevant Donor Efforts in Other Countries.

Utilities

Electricity

Since 1995, the government has implemented several reforms in the electricity market, including raising prices, metering consumption and introducing new social assistance measures to aid the poorest households. The reforms show several benefits. Most importantly, most households now receive better service. Presumably in response to the price increase, consumption dropped by approximately 17 percent (Lampietti et al 2001).

However, these reforms hardly offer a model for other utilities. Collection rates fell 9 percent, arrears increased four-fold and the percentage of households in arrears increased. Wood consumption increased (Lampietti et al 2001). In addition, citizens are not fully informed of issues related to electricity supply. For example, respondents to a World Bank survey conducted in December 1999 and January 2000, "...were not sure whom they should contact if they had problems with their electricity service. Friends or relatives often make informal repairs in the household. A higher percentage of the poor report making repairs themselves (13 percent) than the non-poor (7 percent)," (Lampietti et al 2001, 14).

Condominiums may be able to assist the government in continuing to implement these reforms while reducing costs. For instance, since some already administer their own forms of social assistance, economies of scales may exist in relying on them to administer assistance for electricity payments (see the case of Lithuania in the section on Relevant Donor Efforts in Other Countries). Involving condominiums also may have reduced the amount of government resources used to target and administer electricity benefits to the poorest households. Certainly, condominiums could be used to disseminate information about electricity services and conservation, and perhaps to assist in the organization of entrepreneurs and small and medium enterprises to maintain electricity infrastructure, particularly at building and apartment levels.

Water Supply

The water supply system of Armenia is in bad shape. For domestic customers, water prices increased nearly 100 percent from 1995-1999, but still are too low to support required operation, maintenance and capital improvements. Most households have not paid their water bills for 14 months. Forty percent of respondents to a World Bank survey conducted in December 1999 and January 2000 were generally dissatisfied with their water service. Twenty-five percent of urban households do not know who is responsible for system repairs. Citizens spend a lot of time collecting, storing and treating the water they do obtain (Lampietti et al 2001).

The government, with support from donors such as the World Bank, is considering new approaches to improve the current state of water supply provision in Armenia. There is a need to increase the price of water supply to finance improvements in the system. However, the government does not want to act in a way that will increase political tension or fail to increase revenues for water system investments. A recent World Bank Technical Paper proposes to accompany meter installations and price increases with a water conservation awareness program to limit water usage and encourage

maintenance of household plumbing. However, the Paper correctly notes that public health concerns may justify encouragement of greater water use (Lampietti et al 2001, 38).

Condominiums already are significantly involved in water supply. Sixty percent of condominiums have contracts with their water supply companies (for other condominiums, service is negotiated between the water company and individual residents). According to NACO, condominiums collect an average of 60 percent of the fees owed for water supply services whereas water company employees experience average collection rates of only 30 percent. As compensation for collecting fees for water supply services, the water companies allow the condominiums to retain 3 percent of collected fees. Ten percent of condominiums have water meters, which permit fees based on consumption. Since average normative consumption is overestimated, this usually leads to a reduction of 50 percent or more in water fees (NACO). The decrease in water fees after meter installation is consistent with other regions and countries of the former Soviet Union, both because normative rates often are overestimated and because metering encourages water conservation (for example, see Cartwright 2000).

As recorded in the Successful Condominiums section of this report, some condominiums already maintain water supply infrastructure such as pumps. The involvement of condominiums in maintaining such infrastructure is likely to lead to improved service for residents and improved maintenance of such infrastructure. For this reason, it may be efficient to clearly assign ownership of such infrastructure to condominiums.

Condominiums could be involved in implementing reforms such as those proposed by the World Bank and mentioned above. For instance, more condominiums could be involved in collections, thereby alleviating the need for additional staff, meters and other costs (such as politically unsavory legal actions against non-payers) of water companies. The employment of condominiums in determining water bills and collecting fees will be especially useful if individual apartment metering is determined to be economically unviable.

Condominiums could be employed to conduct a public awareness campaign that includes information on the proper use of water (for which reasons to use and not use it). They also could be relied on to improve the maintenance of building and household water supply infrastructure, and to organize entrepreneurs and small and medium enterprises for this purpose, and perhaps even to maintain infrastructure beyond buildings. As in Lithuania, condominiums could be employed in the provision of utility subsidies for low-income members, as in the case of Lithuania included in the section on Relevant Donor Efforts in Other Countries.

Solid Waste

Thirty percent of condominiums have contracts with private garbage collection companies. The price for collection ranges from 60 to 80 drams per person per month, whereas the price for garbage collection by public garbage companies is 100 drams. Condominiums experience additional savings because private garbage collectors base their fees on the actual number of residents in a building whereas the public collection company charges fees based on the number of registered residents. Therefore, the savings from the use of private companies are at least 40 percent (NACO).

Heating

The central heating systems that before 1990 over-supplied heat to all multi-unit buildings in cities of Armenia today is nearly defunct. In Yerevan in 1999, for example, the heat load and thermal power production levels were approximately 17.5 percent and 12.7 percent of what they were in 1990. The area served by the central heating system decreased 70 percent from 1990 to 1999. The system now is not repaired or maintained and heat losses from the network reach 30 percent (ERM 2001, 2.1 - 2.1.1).

Unsurprisingly, a March 2001 survey of 2,490 households in multi-unit apartment buildings of four cities in Armenia found that, “20 percent of the non-poor and 30 percent of the poor had paid nothing to date for that season’s central heating,” and, “30 percent of the sample did not know how much they were supposed to pay for central heating at all.” In addition, 90 percent of respondents with working central heating had debts and 43 percent of respondents did not intend to pay their debts (ERM 2001, 3.3.2). Condominiums contract no services from heating companies (Doane et al 2000, 59).

The government, with support from donors such as the World Bank, is considering various approaches to improve the current state of heat provision in Armenia. Repair of central heating networks may be justified in areas where the central heating system is serving a lot of the population, such as the Davidashen, Avan and Nor Nork sections of Yerevan and the city of Jermuk. However, in other areas, the high costs of repair (or perhaps replacement, considering that wear is compounded by under-use) increase the utility of considering other options.

Condominiums can play an important role in heating provision. Their current and potential roles in billing, building-level infrastructure maintenance, related social assistance administration and information dissemination described for electricity and water provision are relevant to heating. Condominiums offer economies of scale for the management of such systems, since condominiums are organized for a number of other management tasks related to resident services. In addition, residents are more likely to ensure proper maintenance of a system they implement themselves. The potential role and importance of condominium implementation of heating services is greatest in buildings that now are not serviced by central heating systems and instead rely on expensive electricity heating or unhealthy wood stoves. In such buildings, and perhaps others, condominiums are the appropriate owners of building or block level boilers and other heating infrastructure, as with building water pumps and pipes. Also, condominiums could be used as the arbiters of heating bills, thereby alleviating or reducing the need for apartment-level meters; this is especially important if such metering is determined economically unviable.

The case of dweller association in Moldova provides an example of condominiums might be involved in the implementation of such systems. The Moldova case is described in the section on Relevant Donor Efforts in Other Countries. Condominiums could be employed in the provision of utility subsidies for low-income members, as in the case of Lithuania also included in the section on Relevant Donor Efforts in Other Countries.

A recent ERM survey found that most respondents prefer an improved central heating system based on individual billing when compared to other heating system and billing options. However, government and donors should remember that this preference was expressed given the following scenario:

The system would be installed at no cost to households. The amount of heat consumed by households would be regulated using controls inside apartments. Bills for the improved service would be based on meter readings and depend on the actual amount of heat consumed. Bills would be paid into a designated bank account managed by the utility and service would be cut off if payments were late (ERM 2001, 6.1)

It also should be noted that some respondents indicated their disinterest in collective action because, “...it is not their responsibility to take care of the building, and that collective action would reduce what they see as the appropriate role of the state,” (ERM 2001, 6.3.3). Still, the majority of respondents (more than 50 percent in each city included in the survey, and on average) favored collective action (ERM 2001, 6.4).

DONOR EFFORTS TO SUPPORT CONDOMINIUM DEVELOPMENT IN ARMENIA

Woodgreen Community Center/CIDA

The Woodgreen Community Center, with funding from CIDA, implemented a pilot housing association and maintenance project in Yerevan's Achapniak district, which consists of 263 buildings managed by 54 condominiums. The project aimed to build capacity within condominiums and public and private maintenance companies, recommend improvements to landlord-tenant legislation and share experiences with housing officials in Azerbaijan and Georgia (Woodgreen April 2000 [1] and [2]).

Thirty-one buildings, under management of 10 condominiums, expressed interest in participating in Woodgreen's pilot renovation grants program. In June 2000, the project surveyed 1,200 apartment owners in 26 of the buildings that expressed interest. The survey results reconfirmed the fact that many homeowners are unaware of the rights and opportunities afforded by their condominium membership. For example, 26 percent of the respondents did not know that condominium presidents are elected by members (the recorded answer was No/Don't know), and 36 percent did not know that their condominiums are required by law to hold general meetings once each year (again, the recorded answer was No/Don't know). The survey also found that 56.8 percent of respondents were fully or partially satisfied with the activities of their condominiums, while 43.2% were not very satisfied or absolutely unsatisfied. The survey results of homeowner satisfaction with services delivered by the municipality are summarized in the following table (Woodgreen June 2000, April 2000 [1] and [2]).

Achapniak District Homeowner Satisfaction with Municipal Services, June 2000	
Type of Municipal Service	Percentage of Fully or Partially Satisfied Homeowners
Electricity Supply	91.0
Maintenance	59.5
Water Supply	23.9
Minor Repairs	21.7
Capital Repairs	13.8
<i>Source: Woodgreen June 2000</i>	

Woodgreen selected 12 of the buildings (not condominiums) that expressed interest to participate in its pilot renovation grants program, which provided a total of \$5,376 for capital repairs. The program required participating condominiums to match its grant funds by at least 50 percent, most of which was contributed in kind (Woodgreen June 2000, April 2000 [1] and [2]). The Achapniak 1 condominium that is described as one of the model condominiums in the Successful Condominiums section above participated in the program. A final workshop held in Yerevan disseminated the results of Woodgreen's project, however the authors of this report were unable to find a final report on the pilot project.

Urban Institute/USAID

UI, with funding from USAID, is implementing two projects in Armenia that support condominium development. UI's housing project for the area still recovering from the 1988 earthquake (Gyumri is the largest city in this area) includes a renovation grants components that will incorporate condominiums in its implementation. The grants component is new as of August 2001, so its implementation is just beginning. The component includes funding for:

- association (condominium) grants totaling US\$800,000 (average grant size to be based on cost-benefit analyses);
- 350 urban individual (apartment repairs/renovations) grants, at an average of US\$1,500 each;
- suburban individual (apartment completion) grants, at an average of US\$1,500 each; and
- rural individual (house completions/upgrades) grants, at an average of US\$3,000 each (Anlian September 2001).

UI's local government project is providing training and technical assistance to condominiums in its pilot cities of Yerevan, Gyumri, Sevan, Ijevan, Sissian and Kapan. In early 2001, UI contracted the Scientific Research Center for City Management Systems (SRCCMS) to provide training and technical assistance to condominiums throughout Yerevan. In March 2001, SRCCMS conducted a business planning seminar for approximately 150 condominium presidents. The results and analyses of these efforts are guiding the project's work plan and already have had some positive impacts. For instance, SRCCMS has brought to the attention of relevant ministries the incorrect classification of condominium member dues as service fees that can be taxed.

NACO has designed two types of training for condominiums in the six Marzes (federal districts) in which the project's pilot cities are located. The first type of training was designed for cities in which no condominiums are registered and includes topics such as condominium organizational structure, relations with local governments, budget drafting, Charter development and the registration process. The second type includes topics such as management psychology, business plan drafting and servicing members.

NACO now is training and assisting condominiums in the earthquake zone cities of Gyumri, Vanadzor, Alaverdi, Spitak and Stepanayan, with the aim of registering a total of 30 condominiums by the end of 2001. With technical and financial assistance from UI, 2 condominiums in Gyumri officially registered themselves in September 2001. They now are preparing to participate in the pilot renovations grants component of UI's housing project.

UI's local government project also is supporting the preparation of new condominium legislation through contracting, and providing technical assistance to, the Condominium Law Working Group.

World Bank/TACIS

In developing its strategies for heating, water supply and sanitation and power, the World Bank is considering the roles condominiums do and might play in these sectors. A recent report identified many of the same challenges to condominium development identified by this paper (World Bank 2001).

The World Bank and TACIS jointly funded an assessment of the preferences and demands for urban heating services in cities of Armenia. Environmental Resources Management (ERM) conducted the assessment (ERM 2001). Its most relevant findings are cited throughout this report.

This report also is part of the World Bank's efforts to consider the role of condominiums in the provision of utility services in Armenia.

RELEVANT DONOR EFFORTS IN OTHER COUNTRIES

Promoting Condominium Formation and Development

In Vilnius, Lithuania, the local government has required residents of multi-unit housing to form condominiums by 1 October 2001. Professional condominium administrators, trained by a foundation previously supported by World Bank and Danish aid programs, will assume management authority for any multi-unit housing that is not organized in condominiums by the deadline (Draugelis July 2001).

In Kyrgyzstan, donors have sponsored an annual competition to select “The Best Condominium in the Kyrgyz Republic”. In 2000, 61 condominiums from 9 cities in Kyrgyzstan competed. Each condominium was judged on documents that demonstrated their competence in democratic governance, effective management and sound finances (accounting for 35% of the score) and by a site visit by a team of donor and contractor representatives that reviewed evidence of work to maintain and improve common areas of condominiums. The selection committee awarded prizes to first, second, and third place winners, and 12 ‘encouragement’ prizes to other condominiums. The prize money, a total of \$35,000, must be used for condominium maintenance and infrastructure projects, and any contracts awarded with the prize money must be settled through competitive tender (Reikofski et al 1999-2001).

Building Management Capacities

There are several, not necessarily exclusive, options for donor support in this area. Suggestions from current contractors in Armenia and examples from relevant donor programs in other countries include:

- an institute for condominium managers, as suggested by SRCCMS of Armenia;
- training for energy consultants, as completed by DANIDIA in Lithuania;
- support for professional associations, as in Lithuania; and
- general property management course, offered to condominiums and others.

In Lithuania, three formal organizations have provided management knowledge and skills to condominium chairpersons in Lithuania. First, private maintenance companies campaigned for, and helped to organize, condominiums by circulating draft homeowner association statutes and convincing people that they would save money and improve their quality of life if they organized themselves into condominiums. Second, a network of non-governmental organizations provides a full range of information and services related to condominium development. This network is supported by World Bank and Danish aid programs. These same donors trained a group of individuals as professional condominium administrators. Third, Lithuania has developed a dependable energy consulting industry that was trained by Dutch aid programs to work with condominiums to audit the energy efficiency of buildings and prepare investment proposals that are used by condominiums to obtain loans for upgrading housing infrastructure, with a focus on creating savings from conservation. The industry is at least somewhat self-regulated by the Lithuanian Energy Consultants Association that maintains a list of approved energy consultants (Draugelis July 2001).

Supporting Regional Associations

In Kyrgyzstan, donors have supported condominium development for at least three years. From the beginning, they supported regional condominium associations to promote, and assist with, condominium registration. As more condominiums formed and joined the regional associations, donors have reduced their funding and concentrated their assistance on developing member services within the regional associations, which now offer management and other training for condominium officials and contribute to dialogues on national policies that effect condominiums (Reikofski et al 1999-2001). Regional associations also have been effective in many regions and cities of Russia (Koutakova 1998).

Catalyzing the Market for Heating Services

In Kyrgyzstan, representatives from the regional condominium associations, the Association of Cities, the State Energy Agency and USAID's Central Asian Republics Natural Resources Management contractor have participated in meetings on the relationships between condominiums and heat and power suppliers. Discussion focused on delineating maintenance responsibility for utility networks between providers and multi-unit buildings, and what impact this should have on tariffs. The meeting also informed condominiums about the State Energy Agency and dispute resolution options. The Agency recognized the problems of condominiums and the potential benefits that they offer in promoting efficiencies in the heating system. The parties agreed that the regional associations would develop a set of written recommendations on delineation of responsibility in the energy network. These recommendations are in development, and are being shared with donors and government officials involved in preparing the national heating strategy (World Bank 2001).

In Lithuania, housing associations officially co-own district heat sub-stations with utility companies and the two organizations hold joint authority for deciding the level of heat provision at the sub-station level. However, there are serious conflicts of interest between the two types of organizations, and there are some accounts of utility companies unilaterally increasing sub-station output, thereby increasing customer bills (Draugelis July 2001).

In Moldova, the central government recently transferred ownership of, and responsibility for, district heating systems to several local governments. The central government also ceased direct utility subsidies to those local governments. The systems are in disrepair, causing many residents to disconnect and seek heating from other sources. In Ialoveni and Drochia, some residents have organized themselves into dwellers' associations and installed independent boilers within their buildings. The boilers are fueled by natural gas, the transportation lines for which already were in place or are being repaired in complement to the associations' efforts. Donors funded the boiler purchases, and are assisting the dwellers' associations with establishing systems for billing, collecting and paying for heating services. Based on the early success of these pilot efforts, the dwellers' associations now are considering providing other services, such as water, electricity and gas (Popelka March 2001 [1] and [2]; Tabor 2000-2001)

Employing Condominiums in Billing and Social Assistance Administration

In Lithuania, some condominiums are responsible for calculating subsidies and collecting bills. Individual subsidies are based on means tests and require documentation that participating condominiums provide to utility companies. Local governments pay the utility companies for individual subsidies (Draugelis July 2001).

Reducing the Zhek Barrier

In Novgorod, Russia, overcoming the inherent conflict between local governments (and their zheks) and condominiums is a main reason for recent successes in condominium development. As in most of the former Soviet Union, zheks received government subsidies. The donor-led multi-sector intervention in Novgorod documented the costs that could be saved by introducing competition to the condominium maintenance market. Of course, these savings are achieved only with a reduction or elimination of the subsidies to zheks. The local government was convinced to end the subsidy, so has reduced the barriers to entry for other maintenance companies (Hamilton July 2001).

RECOMMENDATIONS FOR GOVERNMENT AND DONORS⁶

Support the Legal Framework for Condominiums

The Law on Condominiums should be amended to:

- eliminate role of local government in convening founding meetings and conducting architectural studies;
- include provisions for residents of multi-unit buildings that have not formed condominiums (the situation in Vilnius, Lithuania should be monitored for reference);
- clearly define ownership of common infrastructure, both between condominiums and local governments and between condominiums and their members;
- permit condominiums to claim abandoned apartments for conversion, sale or rent; and
- permit the association of condominiums in sharing information and services.

Other than the need for these amendments, the Law on Condominiums provides a suitable framework for condominiums, but it must be enforced. Transferring land to condominiums, as required by the law, will enable condominiums to more easily contribute to economic development and will provide a more solid foundation for future development of the real estate and banking sectors.

The tax law should be amended to ensure that member dues of condominiums and associations of condominiums are not subject to value added taxes.

Inform citizens of the legal framework of condominiums and the rights and opportunities it offers.

Encourage Incorporation of Condominiums in the Development and Maintenance of Utility Infrastructure and Services

Building residents should be involved as much as possible in this process, to increase their sense of ownership and the likelihood of sustained maintenance. In multi-unit buildings, condominiums can implement and own utility systems, thereby encouraging condominium development, exploiting economies of scale in condominium management and saving government resources.

Encourage Employment of Condominiums in Billing for Utility Services to Multi-unit Buildings

Condominiums generally experience better collection rates than service companies, and some service companies even have offered the condominiums a share of the collections in exchange.

Employing condominiums in billing will reduce administration costs (at least some of the savings from which should be shared with condominiums), encourage condominium development and exploit economies of scale in condominium management.

Encourage Employment of Condominiums in Administering Social Assistance for Utility Services

Residents who live in the same building are best qualified to distinguish who among them is unable to pay versus who among them is unwilling to pay. The administration requires formal procedures; the case of Lithuania may offer some examples and lessons.

Consider the Use of Building Level Meters for Heat and Water Services

⁶ This report does not result from formal primary research, but rather from a review of existing information, anecdotal information provided by individual persons to the authors and the authors' own observations and previous knowledge. The recommendations and conclusions included in the report do not necessarily reflect those of the Urban Institute or World Bank.

Metering at the building level will reduce the costs of metering. See the following recommendations for related issues of billing and social assistance administration.

Encourage Social Assistance (Re)Assessments and Promotion of Condominium Development as an Alternatives to, or Part of, Legal Action Against Low Payment Rates and Non-payment

In buildings with low payment rates, condominium development and assessments of social assistance requirements should be encouraged, either as an alternative to, or as a result of, legal action against residents.

Encourage Incorporation of Condominiums in Housing Subsidy and Finance Systems as They Develop

If housing investments are subsidized, the subsidies should include provisions for allocations to condominiums, at least for investments in common infrastructure such as roofs and stairwells. In cases where buildings and not apartments are metered, the condominium is the proper conduit for energy efficiency investments, including insulation of individual apartments.

As the private finance market develops, laws, regulations and other government/donor efforts should facilitate (or at least not obstruct) the availability to condominiums of loans and other financial products.

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ANNEX 1**SUMMARY OF THE CURRENT LAW ON CONDOMINIUMS**

The Law on Condominiums was enacted in 1996 and amended in 1998. It defines condominiums, assigns them functions, rights and responsibilities and outlines the roles of members, their representatives, local governments and other legal entities.

Definition (Articles 1 - 4)

The law defines condominiums as voluntary associations of owners in multi-unit residential buildings. Condominiums are nonprofit organizations whose revenues may be used only for the objectives outlined in their charters. Member shares of common property may not be separated from the whole common property of condominiums. The law states that land under and around condominium buildings is to be transferred to condominium ownership, in accordance with legislation for permanent use (Article 1, 4).

Article 3 assigns the following functions to condominiums:

- Management and maintenance of common property;
- Maintenance of sanitary and fire safety standards;
- Representation of member interests to local governments, courts and other bodies; and
- Dispose of excess common property.

Establishment (Articles 5 - 7)

Condominiums may be established in any building that houses more than one owner. Condominiums are formed by the calling of a Founding Meeting, the legitimacy of which requires at least 50 percent of building owners to attend. Residents or local governments may call Founding Meetings of condominiums. If some residents decide not to join a condominium that has formed in their building, they still are obligated to pay fees for communal services and maintenance. Member liability is limited to member shares of the condominium; it includes no other assets. Condominium liability is limited to its own activities; condominiums are not liable for the debts of their members.

To register, a condominium must present its charter, an application, a list of owners and descriptions of owner and condominium properties. The law indicates registration procedures will be defined by the government. Condominium charters are to be based on a model approved by the government, and must include an inventory of the condominium's and its members' properties, and procedures for the condominium's management.

Management (Articles 8 - 14)

All condominiums elect a president and an audit committee. Condominiums with more than 20 members also elect an administration of 5 - 7 people. Members of a condominium's audit committee may not be members of the administration, president or managers of the condominium. Condominiums also may hire managers and other staff.

The law authorizes condominium *administrations* to: collect fees; prepare accounting and other reports; consider member proposals; ensure proper maintenance, including sanitary and fire safety standards; hire and fire staff members, including managers; prepare annual operational plans and budgets; call general meetings.

Administrations meet at least quarterly, and are legitimate only if at least half of the elected administrators are present. Meetings may be called by a condominium's president, its audit

committee, 20 percent of its members or the administration itself. Administration decisions require support from a majority of elected administrators present at the meeting.

The law authorizes condominium *presidents* to: organize, moderate, and prepare materials for, administration and general meetings; execute administration decisions; supervise managers and other staff members; respond to member proposals; represent condominiums to local governments, courts and other parties; settle contracts and fiscal relations with other parties; and other duties included in condominium charters. Presidents may also serve as managers.

Managers of condominiums supervise daily operations, including maintenance, staff activities and contracting. Managers participate in administration and general meetings, and in discussions called by local government. When a general meeting decides to hire a manager, it transfers several of its functions to the manager. Condominiums must inform their local governments within ten days of hiring a manager.

Audit committees of condominiums supervise and critique implementation of administration and general meeting decisions and financial activities. They also review annual reports and budgets. Members of audit committees may not simultaneously be presidents, managers or administrators of the same condominium.

General meetings at which at least 50 percent of members are present are the highest administrative bodies of condominiums. General meetings decide on a range of issues affecting condominium members. Decisions on adopting or changing charters, budgeting, borrowing and hiring or firing staff, including managers, require support from at least 75 percent of condominium owners. Election and removal of condominium officers and committee members, approval of annual reports, leasing or renting common property to other parties, establishment of rules for use of common property, granting permission for construction or reconstruction of common areas and approval of contracts with other parties require support from only a majority of owners. All members are obligated to adhere to decisions of general meetings.

General meetings may be called by the condominium administration, audit committee or 25 percent of its members, and must be held at least once before 1 March of each year. General meetings must be announced to members at least 10 days in advance.

Rights and Responsibilities of Condominium Members and Tenants (Articles 15 - 23)

Any legal or physical person may be a member of a condominium. Local governments that are members of condominiums have the same rights and obligations as other members. Tenants who are not owners may participate in condominium management only if the owner of their rental unit provides them with a notarized letter of attorney that authorizes such participation. Tenants and owners have the right to appeal in court any decision of condominium management. New owners automatically become members of condominiums in the buildings of their properties. Member shares may be recalculated, following changes in ownership or structures and approval by 75 percent of a general meeting.

Condominium members are entitled to:

- Use their personal property within the condominium as provided by laws of Armenia;
- Vote, and be elected in, condominium elections;
- Access information on their condominiums;
- Use common property in accordance with condominium charters and relevant legislation;
- Participate in condominium activities, either personally or through a representative;
- Propose improvements and make suggestions to condominium management; and
- Be members of more than one condominium simultaneously.

Condominium members are obliged to:

- Adhere to condominium charters, condominium management decisions and local government decisions;
- Respect common property and observe sanitary and fire protection regulations; and
- Participate in condominium activities.

Budgets and Operations (Articles 24 - 35)

The law requires condominiums to follow an annual budget beginning on 1 March. Budgets are approved by general meetings. Condominium members are obligated to contribute to common expenses in proportion to their shares of ownership. Contributions are to be based on annual budgets and approved by general meetings. If members do not contribute their determined shares, condominiums must appeal to a court of law within three months from the due date of payment.

Condominium revenues consist of:

- Member dues;
- Member fees for specific services provided by the condominium;
- Sale or rent of non-residential common space;
- Surpluses from previous budgets;
- Interest from condominium bank accounts;
- Subsidies, grants and loans from the government; and
- Other sources not prohibited by law.

Condominium expenditures consist of:

- Maintenance and protection of common property;
- Insurance payments;
- Facilities and equipment;
- Payments required by contracts;
- Planning and construction;
- Salaries of the hired staff;
- Administrative expenses;
- Loan interest;
- Taxes;
- Renovation of buildings and infrastructure;
- Improvement of common areas; and
- Planting of trees.

Condominium administrations (or presidents in small condominiums) present financial reports on annual budgets to general meetings. Financial reports are signed by presidents and heads of audit committees, then approved by general meetings.

Common structures are exempt from taxation until 2006. The law states that land allocated to condominiums is taxed from the moment of transfer. Insurance of the condominium and of individual properties of the condominium are to be separate.

The law requires local governments to pay for technical reviews of condominiums that have no technical documentation, and to call founding meetings for all condominiums.

The law states that relationships between condominiums and services providers, and between condominium members, are to be regulated by contracts. Condominiums are legally authorized to engage in economic activities (see list of revenue sources above).

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